

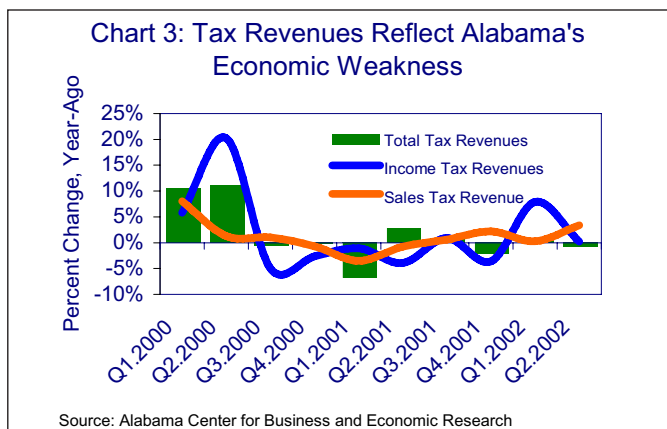
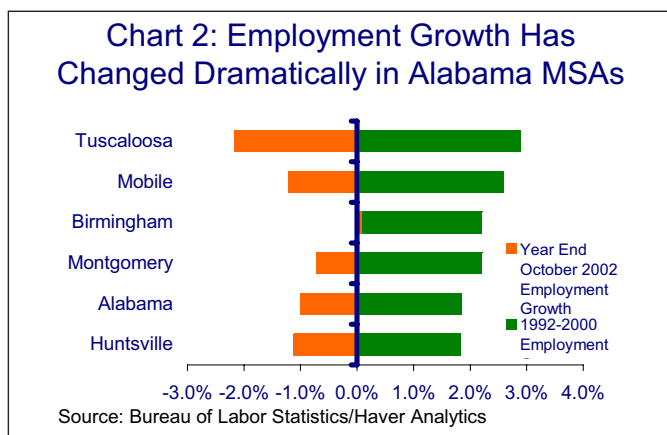
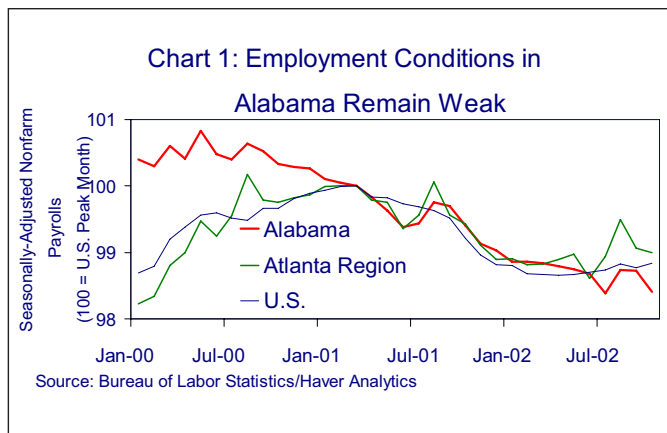
# FDIC State Profile

SPRING 2003

## Alabama

The Alabama economy remains weak as layoffs remained at record levels during the first half of 2002.

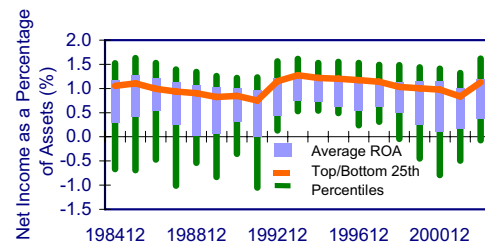
- A recovery in employment growth has remained elusive in Alabama. In October 2002, employment was down over 1 percent from one year earlier, slightly worse than the national average. Weak economic conditions may persist as layoffs have occurred at a record pace during the first half of 2002.
- Alabama entered the recession before the nation. State payrolls peaked in mid-2000 (see **Chart 1**), more than six months before employment at the national level reached its zenith. The recent recession in Alabama has resulted in more significant job losses than during the 1990/1991 downturn.
- The relative deterioration in economic conditions is reflected by the change in the pace of job creation. During the expansion of the 1990s, Alabama job growth averaged almost two percent annually compared with the recent year-over-year decline of more than 1 percent (see **Chart 2**)-a decline of nearly 300 basis points. This divergence in performance has been more apparent in some metropolitan areas, such as *Mobile* and *Tuscaloosa*.
- Manufacturing losses have disproportionately affected Alabama's non-metropolitan counties, where manufacturing accounts for one-quarter of all jobs, compared to roughly 13 percent in metropolitan areas. Moreover, industries that have suffered the most have tended to be concentrated in rural and smaller metropolitan areas. The textiles and apparel industries have been hit hardest by the recent recession, with layoffs concentrated in *Florence* and counties to the south. In contrast, transportation equipment manufacturing employment has continued to expand, particularly in larger metropolitan areas. Continued growth in this industry is likely, given a new Hyundai plant slated for *Montgomery*.
- The recent recession has adversely affected Alabama's state finances. Prior to the recession, revenues grew at a year-over-year rate of just over ten percent (see **Chart 3**). As income growth declined, however, sales and income tax revenue collections weakened considerably.



Community banks headquartered in Alabama continue to report sound conditions, but heightened balance sheet risk combined with economic weakness could lead to asset quality concerns.

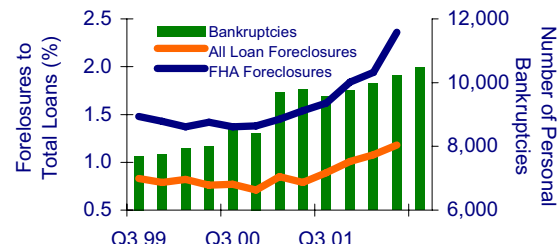
- Overall performance among community banks headquartered in Alabama improved during the 12-month period ending September 30, 2002. On a merger adjusted basis, net income rose 15 percent, driven by improvements in net interest margins (see **Chart 4**). Profitability at these banks also improved as return on assets grew to 0.99 percent by period end — an increase of 6 basis points from September 30, 2001. Banks in the state maintained average noninterest expense year over year, which contributed to the increase.
- Although lowering funding costs, aggressive interest rate cuts by the Federal Reserve helped to compress margins in 2001 as core deposits slowly repriced at most community banks. Continued use of noncore funding, combined with the repricing of some core deposits in 2002, however, was instrumental in driving NIMs higher at these banks.
- Despite a rather stable loans-to-assets ratio, earnings from the loan portfolio were augmented by a shift in loan mix. This shift resulted in greater exposure to higher yielding commercial real estate (CRE) loans, which helped boost profitability. At period end, CRE loans accounted for 16 percent of assets, up from 14 percent at September 30, 2001. Growth in this higher risk segment has occurred during a period of weaker economic conditions. Positively, problems in CRE loan quality have not materialized, and charge-off levels remain relatively low and in line with regional conditions. However, noncurrent loan levels have trended higher over the past two periods and finished September 30, 2002, at 1.64 percent.
- Personal bankruptcy filings have continued to increase throughout the state and have been highly correlated with FHA foreclosure levels during this cycle (see **Chart 5**). Non-current 1-to-4 family loan levels have trended down in each of the past two quarters; however, levels trended upward in third quarter 2002, but remained below year ago levels. 1-to-4 family charge-offs were up 6 basis points year over year to 0.21 percent, consistent with the increasing trend of non-business bankruptcy filings.

**Chart 4: Profitability is on the Rise at Community Banks<sup>1</sup> Headquartered in Alabama**



<sup>1</sup>Commercial banks with assets less \$1 billion in assets.  
Source: Bank Call Reports

**Chart 5: Rising Level of Personal Bankruptcies in Alabama is Contributing to the Increase in FHA Foreclosures**



Source: Mortgage Bankers Association, U.S. Administrative Courts (Haver Analytics)

## Alabama at a Glance

<b>General Information</b>	<b>Sep-02</b>	<b>Sep-01</b>	<b>Sep-00</b>	<b>Sep-99</b>	<b>Sep-98</b>
Institutions (#)	121	129	133	134	140
Total Assets (in thousands)	19,577,266	18,870,148	19,337,566	18,540,701	17,370,510
New Institutions (# < 3 years)	7	7	7	3	1
New Institutions (# < 9 years)	13	10	10	6	7
<b>Capital</b>	<b>Sep-02</b>	<b>Sep-01</b>	<b>Sep-00</b>	<b>Sep-99</b>	<b>Sep-98</b>
Tier 1 Leverage (median)	9.17	9.03	9.45	9.14	9.31
<b>Asset Quality</b>	<b>Sep-02</b>	<b>Sep-01</b>	<b>Sep-00</b>	<b>Sep-99</b>	<b>Sep-98</b>
Past-Due and Nonaccrual (median %)	2.41%	3.03%	2.44%	2.54%	2.91%
Past-Due and Nonaccrual > = 5%	17	26	18	19	20
ALLL/Total Loans (median %)	1.32%	1.24%	1.25%	1.22%	1.26%
ALLL/Noncurrent Loans (median multiple)	1.53	1.32	1.51	1.56	1.31
Net Loan Losses/Loans (aggregate)	0.53%	0.52%	0.37%	0.33%	0.28%
<b>Earnings</b>	<b>Sep-02</b>	<b>Sep-01</b>	<b>Sep-00</b>	<b>Sep-99</b>	<b>Sep-98</b>
Unprofitable Institutions (#)	8	9	10	7	6
Percent Unprofitable	6.61%	6.98%	7.52%	5.22%	4.29%
Return on Assets (median %)	1.18	1.04	1.18	1.20	1.18
25th Percentile	0.84	0.69	0.90	0.93	0.95
Net Interest Margin (median %)	4.41%	4.13%	4.37%	4.35%	4.43%
Yield on Earning Assets (median)	7.02%	8.27%	8.58%	8.10%	8.49%
Cost of Funding Earning Assets (median)	2.73%	4.19%	4.21%	3.84%	4.16%
Provisions to Avg. Assets (median)	0.28%	0.24%	0.20%	0.20%	0.22%
Noninterest Income to Avg. Assets (median)	0.74%	0.73%	0.70%	0.68%	0.72%
Overhead to Avg. Assets (median)	2.85%	2.82%	2.83%	2.84%	3.02%
<b>Liquidity/Sensitivity</b>	<b>Sep-02</b>	<b>Sep-01</b>	<b>Sep-00</b>	<b>Sep-99</b>	<b>Sep-98</b>
Loans to Deposits (median %)	77.74%	76.25%	74.91%	72.71%	71.31%
Loans to Assets (median %)	63.99%	63.80%	62.74%	61.34%	61.39%
Brokered Deposits (# of Institutions)	33	29	32	24	23
Bro. Deps./Assets (median for above inst.)	3.83%	2.71%	2.65%	1.36%	1.38%
Noncore Funding to Assets (median)	23.78%	23.80%	23.99%	21.81%	18.91%
Core Funding to Assets (median)	65.33%	65.39%	65.58%	67.88%	70.49%
<b>Bank Class</b>	<b>Sep-02</b>	<b>Sep-01</b>	<b>Sep-00</b>	<b>Sep-99</b>	<b>Sep-98</b>
State Nonmember	87	92	92	96	94
National	16	19	22	22	29
State Member	18	18	19	16	17
S&L	0	0	0	0	0
Savings Bank	0	0	0	0	0
Mutually Insured	0	0	0	0	0
<b>MSA Distribution</b>	<b># of Inst.</b>	<b>Assets</b>	<b>% Inst.</b>	<b>% Assets</b>	
No MSA	79	11,105,654	65.29%	56.73%	
Birmingham AL	9	2,193,040	7.44%	11.20%	
Mobile AL	7	789,431	5.79%	4.03%	
Dothan AL	6	813,334	4.96%	4.15%	
Montgomery AL	3	385,439	2.48%	1.97%	
Huntsville AL	3	489,584	2.48%	2.50%	
Florence AL	3	735,501	2.48%	3.76%	
Decatur AL	3	1,535,904	2.48%	7.85%	
Columbus GA-AL	2	276,143	1.65%	1.41%	
Auburn-Opelika AL	2	579,188	1.65%	2.96%	
Anniston AL	2	196,679	1.65%	1.00%	
Tuscaloosa AL	1	303,711	0.83%	1.55%	
Gadsden AL	1	173,658	0.83%	0.89%	